

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 EB-07 INT-05 TRSE-00 COME-00 CIAE-00

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TO SECSTATE WASHDC 8814

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

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E.O. 11652: DECON FEB 1, 1977

TAGS: EIND MY ID SN

SUBJECT: MALAYSIAN RUBBER PRICE STABILIZATION SCHEME

SUMMARY

MINISTER OF PRIMARY INDUSTRIES MUSA HITAM CALLED IN AMBASSADOR TO EXPLAIN GOM RUBBER PRICE STABILIZATION SCHEME. HIS BASIC OBJECTIVE WAS TO ESTABLISH THAT SCHEME WAS NOT OPEC-STYLE CARTEL ARRANGEMENT. PLAN INVOLVES (A) SETTING UP OF 300 THOUSAND TON BUFFER STOCK; (B) ENTRANCE OF BUFFERSTOCK MANAGER INTO MARKET WHEN PRICE FALLS TO 120 OR RISES TO 190 MALAYSIAN CENTS PER KILO. INDONESIAN, THAI AND SINGAPORE GOVERNMENTS WILL SUPPORT SCHEME. MUSA FEELS PLAN WILL BE APPROPRIATE ITEM FOR ASEAN-U.S. CONSULTATION AGENDA. END SUMMARY.

2. AT RECEPTION FOR DEPARTING INDONESIAN AMBASSADOR, I MENTIONED TO MINISTER OF PRIMARY INDUSTRIES MUSA HITAM OUR OFFER TO ASEAN COUNTRIES OF CONSULTATION ON TRADE BILL AND RELATED BROAD ECONOMIC PROBLEMS, AND SAID THAT HIS PROGRAM FOR STABILIZATION  
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OF RUBBER PRICES MIGHT BE APPROPRIATE TOPIC FOR SUCH CONSULTA-

TIONS. MUSA EXPRESSED INTEREST AND SUPPORT FOR THE CONSULTATIONS AND ASKED ME TO COME TO SEE HIM FOR A BRIEFING ON HIS STABILIZATION SCHEME.

2. IN ALMOST A TWO HOUR CONVERSATION JANUARY 15, HE OUTLINED IN DETAIL HIS PLANS AND REACTIONS OF NEIGHBORING GOVERNMENTS TO IT. FOLLOWING ARE THE PRINCIPAL ELEMENTS OF HIS PRESENTATION.

3. GENESIS: MUSA TOOK UP NEW PORTFOLIO IN PRIMARY INDUSTRIES LAST SEPTEMBER WITH CONVICTION THAT LONG RANGE PROSPECTS FOR NATURAL RUBBER WOULD BE IMPROVED IF MECHANISM COULD BE SET UP THAT WOULD LEVEL OFF WIDE FLUCTUATIONS IN PRICE OF THIS INTERNATIONAL COMMODITY. IN HIS JUDGMENT, UNCERTAINTY OF COSTING FACTOR FOR NATURAL RUBBER HAD IN THE PAST CAUSED POTENTIAL USERS TO OPT FOR SYNTHETIC RUBBER BECAUSE OF ITS MORE STABLE PRICE. FURTHER, DRAMATIC INCREASE IN COST OF PETROLEUM BASED FEEDER STOCKS FOR SYNTHETIC, AND ENVIRONMENTAL BENEFITS FROM NATURAL RUBBER PRODUCTION MADE EFFORT TO IMPROVE PRODUCTION AND MARKETING OF NATURAL RUBBER DESIRABLE. ORGANIZATION OF RUBBER STABILIZATION SCHEME BEGAN IN OCTOBER, AND WAS NOT AS SOME CRITICS HAVE SUGGESTED, EMERGENCY EFFORT TO MEET DEMANDS OF STUDENT DEMONSTRATORS.

4. BACKGROUND: WORKING FROM STATISTICS OF RUBBER RESEARCH INSTITUTE, WHICH MUSA CLAIMED WITH SOME JUSTIFICATION, WERE AMONG THE MOST COMPLETE AND SOPHISTICATED OF ANY IN THE WORLD, PROGRAM WAS DRAWN UP THAT WILL ESTABLISH BUFFER STOCK OF APPROXIMATELY 10 PERCENT OF PRESENT WORLD CONSUMPTION OF SLIGHTLY OVER 3 MILLION TONS PER YEAR. ACCORDING TO THEIR CONSERVATIVE PROJECTIONS, WORLD CONSUMPTION OF NATURAL RUBBER BY 1980 WILL BE 6 MILLION TONS. BETWEEN 1959 AND 1970 WORLD DEMAND AND SUPPLY OF NATURAL RUBBER HAS HAD A 8 PERCENT RANGE FROM 5 PERCENT BELOW TO 3 PERCENT ABOVE WORLD DEMAND.

5. PRICES: DURING THIS PERIOD THE PRICE OF RUBBER HAS RANGED FROM 40 TO 300 MALAYSIAN CENTS PER KILO. SCHEME PURPOSE IS TO TRY TO MAINTAIN PRICE BETWEEN 150 AND 180 MALAYSIAN CENTS PER KILO WITH BUFFER STOCK BUYING RUBBER WHEN IT GOES BELOW 120 CENTS AND SELLING WHEN IT GOES ABOVE 190 CENTS.

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6. BUFFER STOCK: MALAYSIA WILL BE RESPONSIBLE FOR MAINTAINING TWO-THIRDS OF 300,000 TONS OF BUFFER STOCK, WITH INDONESIA HOLDING REMAINING ONE-THIRD. THAILAND, VIETNAM, AND SRI LANKA MAY LATER BE ASKED TO JOIN THE SCHEME.

7. OPERATIONS IN MALAYSIA: AS THE MAJOR PRODUCER (55 PERCENT OF WORLD PRODUCTION) AND WITH THE ADMINISTRATIVE MACHINERY TO CARRY OUT THE PLAN, MALAYSIA SAID THE MINISTER, MUST CARRY THE PRIN-

CIPAL BURDEN. THE SCHEME HAS PRODUCED SOME OF THE LONGEST CABINET MEETINGS ON RECORD, HE SAID, BECAUSE RUBBER TOUCHES ALMOST EVERY ASPECT OF MALAYSIAN LIFE AND IS THEREFORE OF SPECIAL POLITICAL SENSITIVITY. HE HAS BEEN IN NON-STOP SERIES OF MEETINGS ALSO WITH RUBBER PRODUCERS' ASSOCIATIONS, RUBBER TRADERS, PLANTATION WORKERS' UNIONS, AND SMALLHOLDERS' ASSOCIATION. THE PLANTATIONS (100 ACRES OR MORE) HAVE AGREED TO THE FOLLOWING MEASURES TO REDUCE PRODUCTION: HOLIDAY AND SUNDAY TAPPING WILL BE STOPPED; OLDER RUBBER TREES BEING KEPT IN PRODUCTION WITH CHEMICAL STIMULANTS WILL BE CUT DOWN AND NEW TREES PLANTED. THE TRADERS HAVE AGREED TO HOLD AND STORE TEN PERCENT OF THEIR ANNUAL VOLUME, SELLING WHEN THE BUFFER STOCK MANAGER IS SELLING. THE HALF MILLION SMALLHOLDERS WHO NOW PRODUCE OVER ONE-HALF OF THE NATURAL RUBBER WILL NOT BE ASKED TO REDUCE PRODUCTION. THEY MAY CONTINUE TO TAP AS BEFORE AND WHEN PRICE FALLS BELOW A CERTAIN POINT, THE GOVERNMENT ITSELF WILL STEP IN AND BUY THE RUBBER DIRECTLY.

8. MUSA INTERRUPTED HIS PRESENTATION AT THIS POINT TO NOTE THAT COMMUNIST SUBVERSION HAD NEVER BEEN SUCCESSFUL IN MALAYSIA BECAUSE IT HAD NEVER BEEN ABLE TO DEVELOP A PEASANT BASE. THE PEASANT IN MALAYSIA IS PREDOMINANTLY MALAY AND A MAJOR POLITICAL BENEFIT OF THE STABILIZATION PROGRAM WILL BE THE MAINTENANCE OF A DECENT INCOME FOR THE RUBBER SMALL-HOLDER. I NOTED THAT THE STEVENSON PLAN THAT TRIED TO RAISE THE PRICE OF NATURAL RUBBER IN THE 1920'S RAN INTO CONSIDERABLE SMALLHOLDERS' OPPOSITION WHEN EFFORTS WERE MADE TO LIMIT THEIR PRODUCTION. MUSA SAID THAT HE HAD STUDIED THE HISTORY OF THIS EFFORT CAREFULLY AND THAT THERE WAS AGREEMENT WITHIN THE GOVERNMENT THAT ATTEMPTS TO LIMIT SMALLHOLDER PRODUCTION WOULD BE ADMINISTRATIVELY DIFFICULT AND POLITICALLY UNDESIRABLE.

9. COOPERATION WITH OTHER PRODUCERS: MUSA NOTED THAT THE LIMITED OFFICIAL USE

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STEVENSON PLAN WAS UNSUCCESSFUL BECAUSE THE NETHERLANDS INDIES GOVERNMENT REFUSED TO JOIN IN. AS THE SECOND LARGEST PRODUCER OF NATURAL RUBBER, COOPERATION WITH INDONESIA WAS ESSENTIAL, AND HE SAID HE HAD DEVOTED CONSIDERABLE TIME TO DISCUSSION WITH MANY SENIOR GOI OFFICIALS. DESPITE SOME INITIAL SKEPTICISM, MUSA FEELS HE NOW HAS COMPLETE POLITICAL COMMITMENT AND ENTHUSIASTIC SUPPORT FROM THE INDONESIAN GOVERNMENT. (HE POINTED TO A PHONE ON HIS DESK AND SAID "I HAVE A HOT LINE TO RADIUS PRAWIRO.")

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INFO OCT-01 ISO-00 EB-07 INT-05 TRSE-00 COME-00 CIAE-00

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10. MUSA AGREED WITH MY OBSERVATION THAT THE INDONESIAN SPIRIT MIGHT BE WILLING BUT THE FLESH WEAK, AND SAID THAT GOI CONTROL OF SMALLHOLDER PRODUCERS IN SOUTH SUMATRA AND KALIMANTAN WAS NOT GREAT. IN THESE AREAS, HE CONTINUED, GOI INTENDED TO WORK WITH RELATIVELY SMALL NUMBER OF RUBBER TRADERS AND HAVE THEM STORE AND HOLD TEN PERCENT OF THEIR ANNUAL VOLUME. FINANCING OF THIS STOCKPILING WILL PRESENT PROBLEMS AND MUSA HAD SUGGESTED TO INDONESIANS THAT SOME OF INDONESIA'S PETRO DOLLARS MIGHT BE DEVOTED TO THIS OBJECTIVE.

11. SINGAPORE: AS THE INTREPOT FOR MUCH OF INDONESIAN SMALL-HOLDERS' RUBBER, SINGAPORE HAS AN IMPORTANT ROLE IN HIS SCHEME. HE HAD HAD AN EXTENDED TALK WITH PRIME MINISTER LEE KWAN YEW, LAYING BEFORE HIM A COMPLETE DESCRIPTION OF HIS PLAN. LEE HAD INITIALLY SAID THAT IN A FREE MARKET ECONOMY HE HAD NO CONTROL OVER THE OPERATION OF THE RUBBER MARKET. MUSA CONTINUED HIS PITCH UNDETERRED, KNOWING THAT IF THE PRIME MINISTER WAS PERSUADED, THERE WAS LITTLE IN SINGAPORE HE COULD NOT CONTROL, AND AT THE END OF THE CONVERSATION HE CAME AWAY CONVINCED THAT SINGAPORE WILL COOPERATE.

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12. THAILAND: WHILE MUSA FOUND THAI OFFICIALS SYMPATHETIC, HE ACCEPTED THE REALITY THAT THE THAI GOVERNMENT AT THIS STAGE COULD NOT BE EXPECTED TO PLAY AN ACTIVE ROLE IN THE SCHEME. MOST OF THAI RUBBER IS PRODUCED IN THE SOUTH AND IS MIXED UP WITH THE POLITICALLY SENSITIVE ISSUE OF THE MALAY MAJORITY IN THE SOUTHERN PROVINCES.

13. REACTIONS: THE MINISTER SAID THAT HE HAD DISCUSSED HIS SCHEME WITH SEVERAL MAJOR EUROPEAN CONSUMERS OF MALAYSIAN NATURAL RUBBER AND IN GENERAL FOUND SYMPATHY AND SUPPORT FOR AN EFFORT TO STABILIZE RUBBER PRICES. HE SAID THAT THROUGHOUT THESE CONVERSATIONS HE HAD STRESSED THAT HIS PROGRAM SHOULD NOT BE CONSIDERED IN THE SAME LIGHT AS OPEC PRICING OF OIL, OR THE EFFORTS OF PRODUCERS OF OTHER RAW MATERIALS TO FORCE UP PRICES BY CARTEL ARRANGEMENTS.

14. MUSA WENT ON TO SAY THAT THE MAJOR REASON FOR HIS REQUEST TO SEE ME WAS TO ESTABLISH BY A FULL EXPLANATION OF THE BACKGROUND AND MECHANISMS OF HIS PROGRAM THAT MALAYSIA WAS NOT ATTEMPTING TO SET UP A CARTEL SITUATION, AND THAT THE SCHEME WAS DESIGNED TO HOLD RUBBER AT A PRICE THAT WOULD BE BENEFICIAL TO BOTH THE PRODUCER AND THE CONSUMER. HE WAS, THEREFORE, PLEASED WITH THE PROSPECT OF ASEAN CONSULTATIONS WITH THE UNITED STATES BECAUSE ALL OF THE MEMBERS HAD AN INTEREST IN NATURAL RUBBER PRICES AND IT WOULD GIVE HIM AN OPPORTUNITY TO EXPLAIN DIRECTLY TO SENIOR U.S. OFFICIALS THE OBJECTIVES AND OPERATIONS OF HIS PLAN.

15. COMMENT: I THINK MUSA WAS BEING FRANK IN LAYING HIS CARDS ON THE TABLE. WE ARE THE PRINCIPAL BUYER OF MALAYSIAN RUBBER, AND HE MADE IT CLEAR HE DID NOT WANT HIS SCHEME TO RUN AFOUL OF THE PENALTIES ON CARTELS IN THE TRADE ACT. AS FORMER VICE MINISTER OF TRADE AND INDUSTRY, MUSA ALSO IS PARTICULARLY CONSCIOUS OF THE IMPORTANCE TO MALAYSIA OF A GOOD TRADE AND INVESTMENT CLIMATE WITH THE UNITED STATES.

DECONTROL FEB 1, 1977.  
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